

License to Work

PROFESSIONAL LICENSING: ROAD TO SOCIAL ATHEROSCLEROSIS? BY RODGER DOYLE

Milton Friedman, the Nobel laureate economist, noted that the destruction of the medieval guilds was indispensable to the creation of the modern world. In his 1962 classic, *Capitalism and Freedom*, he explained that “there has been a retrogression, an increasing tendency for particular occupations to be restricted to individuals licensed to practice them by the state.”

Friedman’s warning came at a time when only 5 percent of jobs required licenses. Today the proportion has grown past 20 percent (*left chart*). The states, which obtained the right to grant professional licenses from the U.S. Supreme Court in 1889, now cumulatively recognize at least 800 occupations that require them. But only about 50—including medicine, dentistry, law, engineering, accounting, barbering and cosmetology—are registered in all 50 states. Currently up to half of all professionals are in occupations that require a license, but the extent of licensing varies considerably by state.

Members of licensing boards typically come from the ranks of the regulated profession, although that does not have to be the case, because the state governor appoints the members. Boards have authority to set standards for apprenticeship and administer professional entrance exams. Thus, they have a powerful means to restrict entry into the professions they regulate and to increase the income of board-certified practitioners. A study based on state-by-state data from 1960 to 1987 found that increased licensing restrictions by state dentistry boards did not

lead to improved dental health—but it did boost incomes for dentists.

Additional insight into whether restrictive practices lead to higher professional incomes might come from looking at the incomes of licensed occupations and those of unlicensed occupations with comparable educational requirements. In 2005 the average dentist made 46 percent more than the average physicist, although educational requirements for the two professions are analogous. Lawyers likewise made 37 percent more than economists, whereas barbers made 51 percent more than shampooers. As shown in the left chart, restrictive practices coincide with the rising share of income going to the top fifth of the population. (Other factors, however, probably carry more weight—such as the failure to raise the minimum wage, the loss of traditional blue-collar employment since the 1970s, and government policies that favor the rich.)

Based on employment trends of the five best-paying professional occupational groups in the country (*right chart*), Friedman’s implied concern that licensing inhibits job entry does not seem to be justified in most cases; engineering, accountancy, law and medicine have all grown substantially. Meanwhile, however, dentistry has not—a lag consistent with studies suggesting that it has the most restrictive licensing practices of the traditional professions.

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LICENSE AND REGISTRATION

States with the largest percentage of workers covered by licensing:

California: 30.4
Connecticut: 30.1
Arkansas: 28.6
Michigan: 28.3
Illinois: 27.5

States with the smallest percentage:

Mississippi: 6.1
Wyoming: 11.2
Kansas: 11.9
Indiana: 12
Kentucky: 12

FURTHER READING

Licensing Occupations: Ensuring Quality or Restricting Competition?
Morris M. Kleiner.
W. E. Upjohn Institute for Employment Research, 2006.

